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COMMISSIONER

ARIZONA CORPORATION COMMISSION  
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DEC 04 2001

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IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY  
FOR APPROVAL OF ITS STRANDED COST  
RECOVERY AND FOR RELATED  
APPROVALS, AUTHORIZATIONS AND  
WAIVERS

Docket No. E-01933A-98-0471

IN THE MATTER OF THE FILING OF  
TUCSON ELECTRIC POWER COMPANY OF  
UNBUNDLED TARIFFS PURSUANT TO  
A.A.C. R14-2-1602 *et seq.*

Docket No. E-01933A-97-0772

TUCSON ELECTRIC POWER COMPANY  
APPLICATION FOR APPROVAL OF ITS  
PROPOSED DIRECT ACCESS SERVICE  
FEES AND ITS PROPOSED AMENDMENTS  
TO ITS RULES AND REGULATIONS.

Docket No. E-01933A-99-0729

IN THE MATTER OF THE COMPETITION IN  
THE PROVISION OF ELECTRIC SERVICES  
THROUGHOUT THE STATE OF ARIZONA.

Docket No. RE-00000C-94-0165

**MOTION FOR APPROVAL OF  
CLARIFICATION OF SETTLEMENT  
AGREEMENT**

Tucson Electric Power Company ("TEP") moves for approval of clarification of the Settlement Agreement approved in this docket in Decision No. 62103. In support of this motion, TEP states:

1                   1. On June 9, 1999, TEP, Arizonans for Electric Choice and Competition,  
2 the Residential Utility Consumer Office and the Arizona Community Action Association  
3 (the "Parties") entered into a Settlement Agreement, which provided for resolution of  
4 issues necessary for implementing the Arizona Corporation Commission's ("Commis-  
5 sion") Electric Competition Rules.

6                   2. The Settlement Agreement, with modifications, was subsequently  
7 approved by the Commission.

8                   3. The Settlement Agreement authorized TEP the opportunity to recover its  
9 stranded costs through the implementation of a Competition Transition Charge ("CTC").

10                  4. Since the commencement of the implementation of the Settlement  
11 Agreement, the Parties have concluded that some clarification of the provisions relating to  
12 the calculation of the Market Generation Credit ("MGC") is required to insure complete  
13 and full implementation of the settlement as intended by the Parties.

14                  5. In particular, Paragraph 2.1(d) of the Settlement Agreement requires  
15 TEP, in calculating the MGC, to use off-peak to on-peak price ratios from the California  
16 Power Exchange. The California Power Exchange no longer exists, necessitating a  
17 clarification to this provision. In accordance with Paragraph 13.2 of the Settlement  
18 Agreement, the Parties have agreed to the necessary clarification of the Settlement  
19 Agreement and the Parties agree the clarification is consistent with the Settlement  
20 Agreement and do not change the underlying logic of the MGC calculation.

21                  6. The parties have entered into a Memorandum of Understanding that sets  
22 forth the proposed clarification of the Settlement Agreement. A fully-executed copy of the  
23 Memorandum of Understanding is attached hereto. All parties to the Settlement  
24

Agreement and to the attached Memorandum of Understanding understand that this motion is being filed with the Commission.

Based on the Memorandum of Understanding, the Parties have clarified the Settlement Agreement as follows:

(i) Paragraph 2.1(d) of the Settlement Agreement is clarified by the following:


- a. The monthly MGC amount shall be calculated in advance and shall be comprised of both an on-peak value and an off-peak value. The monthly on-peak MGC component shall be equal to the Market Price multiplied by one plus the appropriate line loss (including unaccounted for energy ("UFE")) amount. The Market Price shall be equal to the Palo Verde NYMEX futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of Palo Verde NYMEX settlement prices.
- b. The off-peak MGC component shall be determined in the same manner as the on-peak component, except that the Palo Verde futures price will be adjusted by the ratio of the simple average of off-peak to on-peak hourly prices from the California Power Exchange (AZ3) of the same month from the preceding year, through January 2002. Thereafter, the off-peak MGC component will be adjusted by the ratio of the simple average of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.
- c. The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

### CONCLUSION

TEP requests that the Motion for Approval of Clarification of Settlement Agreement be granted.

1  
2 RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of December, 2001.  
3

4 ROSKA HEYMAN & DEWULF, L.L.C.  
5

6 By   
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16 foregoing filed December 4, 2001, with:

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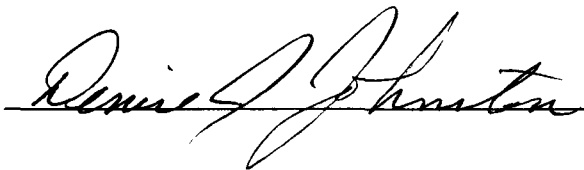
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## MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is entered into this 4<sup>th</sup> day of December, 2001, between TUCSON ELECTRIC POWER COMPANY ("TEP"), ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION ("AECC"), RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCCO") and ARIZONA COMMUNITY ACTION ASSOCIATION ("ACAA") (also sometimes collectively referred to as the "Parties").

A. On June 9, 1999, the Parties entered into a Settlement Agreement, which provided for resolution of issues necessary for implementing the Arizona Corporation Commission's ("Commission") Electric Competition Rules.

B. The Settlement Agreement, with modifications, was subsequently approved by the Commission.

C. The Settlement Agreement authorized TEP the opportunity to recover its stranded costs through the implementation of a Competition Transition Charge ("CTC").

D. Since the commencement of the implementation of the Settlement Agreement, the Parties have concluded that some clarification of the provisions relating to the calculation of the Market Generation Credit ("MGC") is required to insure complete and full implementation of the settlement as intended by the Parties.

E. In particular, Paragraph 2.1(d) of the Settlement Agreement requires TEP, in calculating the MGC, to use off-peak to on-peak price ratios from the California Power Exchange. The California Power Exchange no longer exists, necessitating a clarification to this provision.

In accordance with Paragraph 13.2 of the Settlement Agreement, the following clarifications set forth the understanding of the Parties and the Parties agree are consistent with the Settlement Agreement and do not change the underlying logic of the MGC calculation.

1. Paragraph 2.1(d) of the Settlement Agreement is clarified by the following:

(a) The monthly MGC amount shall be calculated in advance and shall be comprised of both an on-peak value and an off-peak value. The monthly on-peak MGC component shall be equal to the Market Price multiplied by one plus the appropriate line loss (including unaccounted for energy ("UFE")) amount. The Market Price shall be equal to the Palo Verde NYMEX futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of Palo Verde NYMEX settlement prices.

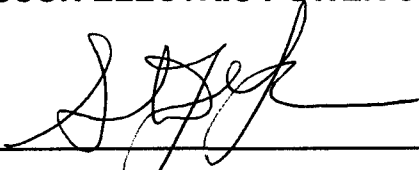
(b) The off-peak MGC component shall be determined in the same manner as the on-peak component, except that the Palo Verde futures price will be adjusted by the ratio of the simple average of off-peak to on-peak hourly prices from the California Power Exchange (AZ3) of the same month from the preceding year, through January 2002. Thereafter, the off-peak MGC component will be adjusted by the ratio of the simple average of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.

(c) The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

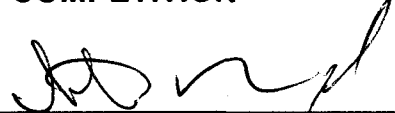
It is not the intent of the Parties by entering into this Memorandum of Understanding to amend the Settlement Agreement, but only to make more clear certain provisions as set forth above.

EXECUTED ON THE DATE FIRST ABOVE WRITTEN.

**TUCSON ELECTRIC POWER COMPANY**

By   
Its SVP/COO


**ARIZONANS FOR ELECTRIC CHOICE  
AND COMPETITION**

By   
Its President

**RESIDENTIAL UTILITY CONSUMER  
OFFICE**

By   
Its Director

**ARIZONA COMMUNITY ACTION  
ASSOCIATION**

By   
Its Energy Program Manager